PROGRAM MANAGEMENT

Summary

HCFA's FY 1997 Program Management budget request is $2,202 million, a 3.3 percent increase over estimated FY 1996. The Program Management account provides resources for administering the Medicare and Medicaid programs. Program Management supports the following activities: Medicare Contractors; Federal Administration; Medicare Survey and Certification; and Research, Demonstrations and Evaluation.

While workloads have continued to increase every year, the Program Management budget has remained relatively flat or decreased, requiring HCFA to find more efficient methods to accomplish its mission and its goals as established in its strategic plan. HCFA is attempting to fulfill a significant part of this mission with the development and implementation of the Medicare Transaction System (MTS), HCFA's state-of-the-art information management initiative. MTS will consolidate the current system of 77 claims-payment contractors utilizing nine shared computer systems into one system operated by three contractors using standardized data elements. This initiative will achieve substantial administrative savings through the use of new technology, consolidation of processing systems and standardized data. MTS will affect all aspects of Medicare, positioning HCFA to reengineer itself more productively for the challenging times ahead.

Medicare Contractors

The Medicare program is administered through private organizations, usually private insurance companies, which are referred to as contractors. Contractors' responsibilities include processing claims and making benefit payments, performing certain functions to ensure the appropriateness of Medicare payments and to protect the Medicare Trust Funds, developing management improvements called productivity investments, and responding to the needs of its many customers and stakeholders, the Medicare beneficiaries and the provider community.

Despite a growing investment in MTS and an increasing claims workload, the Medicare Contractor budget will increase by only 0.6 percent, from $1,604.2 million in FY 1996 to $1,614.2 million in FY 1997. The four key contractor activities are claims processing, beneficiary and provider services, payment safeguards and productivity investments.

Approximately 53 percent of the FY 1997 contractor budget request, or $849 million, has been designated for claims processing, a 2 percent decrease from FY 1996. HCFA's success in controlling processing costs has resulted in reduced unit costs of processing claims, allowing the agency to process an expected 861 million claims in FY 1997 within statutorily limited processing times. This workload level represents a 3.4 percent increase over revised FY 1996 estimates. HCFA anticipates that increased managed care enrollment will limit growth in claims and billings.

Beneficiary and provider services comprise 16 percent of the Medicare Contractors' FY 1997 request, or $254 million. This amount will maintain funding for the Medicare beneficiary

toll-free telephone lines, timely hearings and reconsiderations, prompt responses to provider and beneficiary inquiries, provider education and training efforts, and the Medicare participating physicians program. HCFA will continue its innovative use of audio response units (ARUs) for telephone inquiries, as well as continuing its use of the telephone to conduct hearing reviews and reconsiderations. These activities demonstrate HCFA's combined efforts toward more cost-effective management and a greater commitment to providing better customer service.

This request provides $396 million for payment safeguard activities to prevent and recover inappropriate Medicare payments, an amount virtually equal to that appropriated for the last three years. These activities include financial audits, medical and utilization reviews, and the identification of Medicare beneficiaries who have other insurance plans with primary responsibility for paying claims. Funds are also earmarked to support carrier efforts in detecting, developing and investigating program fraud and abuse. HCFA expects to generate $5.6 billion in savings to the Trust Funds with its $396 million investment in payment safeguard activities in FY 1997, a 14 to 1 return on investment.

Building upon the Department's current efforts in Operation Restore Trust to combat health care fraud and abuse, HCFA currently has legislation before Congress to provide a stable and reliable funding source for these activities under the direct spending budget. HCFA's long-term strategy to fund current Medicare payment safeguard activities is the Medicare Benefit Integrity System (MBIS). MBIS removes these activities from the discretionary account and moves them to the entitlement account, using Trust Fund dollars. Should this legislation be enacted, an additional $104 million would be added to the above amount to supplement HCFA's current effort.

The budget request allocates $115 million for productivity investments. Productivity investments enhance the cost-effectiveness and quality of contractor operations and are part of the long-term reform of Medicare administration. In FY 1997, HCFA will begin implementation of the Medicare Transaction System (MTS). MTS implementation will be completed in FY 1999. After that time, HCFA estimates that MTS will achieve $200 million in annual administrative savings. Other productivity investments costs include transition costs for contractors who may leave the program.

Federal Administrative Costs

For FY 1997, the President's budget requests $359 million for HCFA's Federal administrative costs. This request also includes a staffing level of 4,100 FTE. HCFA remains on target to meet the Department's FTE targets, thereby supporting the President's mandate on reducing the size of the Federal work force. This funding level also includes funding to support the extensive data processing requirements for the Medicare and Medicaid programs, as well as necessary maintenance and enhancement of 80 automated data systems. This funding level also allows HCFA $2 million for HCFA On-Line to continue activities to make the agency more responsive to providers and beneficiaries. HCFA will also spend $20 million to update and distribute the Medicare Handbook to all Medicare beneficiaries in FY 1997. HCFA will also fund its new Long-Term Care initiative in FY 1997. Activities to begin creating and

developing alternative long-term care models will be funded at $1 million in FY 1997.

Research, Demonstrations and Evaluation

The FY 1997 budget requests $55.3 million for the Research, Demonstrations and Evaluation program. HCFA's research program supports research and demonstration projects to develop and implement new health care financing policies and to evaluate the impact of HCFA's programs on its beneficiaries, providers, States, and our other customers and partners. Information from HCFA's research program is used by Congress, the Executive Branch, and States to improve the efficiency, quality, and effectiveness of the Medicare and Medicaid programs.

In addition to basic research, this budget fully funds the Medicare Current Beneficiary Survey and the Information, Counseling and Assistance Grants program. Basic research funds will support research and demonstration in the areas of monitoring and evaluating health system performance, improving health care financing and delivery mechanisms, meeting the needs of vulnerable populations, and improving consumer choice and health status. HCFA will continue its commitment to rural health needs in FY 1997 by supporting efforts for telemedicine demonstrations in rural areas.

Survey and Certification

Ensuring the safety and quality of care provided by health facilities is one of HCFA's most critical responsibilities. HCFA contracts with State agencies to inspect health facilities providing services to Medicare and Medicaid beneficiaries to ensure compliance with Federal health, safety, and program standards. HCFA's quality oversight includes initial inspections of providers who request participation in the Medicare program, annual recertification inspections of nursing homes and home health agencies (HHAs) as required by law, investigation of beneficiary complaints, and periodic recertification surveys of other health care providers and suppliers.

For FY 1997, the President's budget requests a total of $173.8 million for direct survey and certification activities and workloads. This $28 million increase over FY 1996 is necessary both to conduct initial inspections of more than 3,200 facilities expected to request Medicare participation (including the elimination of any prior year backlog), and to increase the frequency of annual surveys performed on non-long-term care facilities (e.g., ESRD facilities, hospices, rural health clinics, ambulatory surgical centers). As mandated by OBRA 87, HCFA conducts recertification surveys (over 24,000) on nursing facilities and home health agencies annually--a coverage level of 100 percent. HCFA plans to reach a recertification coverage level on non-accredited hospitals and psychiatric hospitals, hospices and other providers of 25 percent.

As part of the Health Care Quality Improvement Program, HCFA is currently placing greater emphasis on effective internal quality management systems within Medicare facilities, as well as the provider's responsibility to monitor outcomes. In FY 1997, HCFA will be retraining

surveyors across the country to reinforce our focus on patient outcomes, which will result in improved quality throughout the program.

Legislative Proposals

The President's health care legislation package provides added protections for individuals and small businesses and makes health coverage more accessible, portable, and affordable. The Health Insurance for the Unemployed proposal provides funds to States to finance up to six months of coverage for unemployed workers and their families. Other proposed insurance reforms restrict pre-existing conditions exclusions and prohibits lifetime benefit maximums or caps on benefits for specific conditions. A small State grant program will be established to accelerate the development of health insurance purchasing cooperatives, which have successfully reduced costs and increased choice for small businesses by allowing them to pool their employees for purposes of purchasing health insurance.

Clinical Laboratory Improvement Amendments of 1988

The Clinical Laboratory Improvement Amendments of 1988 (CLIA '88) expanded survey and certification of clinical laboratories from Medicare-participating and interstate commerce laboratories to all facilities testing human specimens for health purposes. CLIA '88 also introduced user fees for clinical laboratories to finance survey and certification activities. User fees are credited to the Program Management account but are available until expended for CLIA activities. The CLIA program is fully operational, with about 152,000 laboratories registered with HCFA; about 26 percent of the labs are subject to routine inspection under the program.

PROGRAM MANAGEMENT OVERVIEW

(Obligations in millions)[1]

	1995 Actual	1996 Policy	1997 Request	Request +/-Policy
Medicare Contractors:				
Claims Processing	$873	$869	$849	-$19
Bene./Prov. Services	269	268	254	-14
Payment Safeguards[2]	415	396	396	-
Productivity Investments	47	72	115	+43
Subtotal, Medicare Contractors	$1,604	$1,604	$1,614	+$10
Survey and Certification	146	146	174	+28
Federal Administration	354	328	359	+31
Research	75	55	55	-
Subtotal, BA (current law)	$2,178	$2,132	$2,202	+$70
CLIA	34	37	43	+6
Total, Program Level[3]	$2,353	$2,169	$2,245	+$76
FTE	4,100	4,100	4,100	0

1 Numbers may not add due to rounding.

2 The FY 1995 Appropriation for payment safeguard was $396 million.

3 Not included in these totals are the legislative proposals for the Medicare Benefit Integrity System (-$396 million from Payment Safeguards in FY 1997), for the Health Insurance for the Temporarily Unemployed (+$1,519 million in FY 1997), and for the state grants for health care purchasing cooperatives (+$25 million in FY 1997).